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SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q



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J92-2228

[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF
THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended May 31, 1992

OR

[] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF
THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from to

Commission file number 33-31006

FDX LABS INC.

(Exact name of registrant as specified in its charter)

New York

11-2626013

(State or other jurisdiction
of incorporation or organization)(I.R.S. Employer
Identification No.)

145 Ricefield Lane

Hauppauge, New York

(Address of principal executive offices)

11779

(Zip Code)

(516) 273-2630

(Registrant's telephone number including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

YES ☒ NO ☐

Class

Common Stock

Outstanding at June 29, 1992

8,707,059

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PDK LABS INC.

FORM 10-Q

QUARTERLY REPORT
for the Six Months ended May 31, 1992

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PDK LABS INC.**BALANCE SHEETS**

	May 31, 1992 (unaudited)	November 30, 1991
ASSETS		
CURRENT ASSETS:		
Cash	\$11,772,558	\$ 3,135,423
Accounts receivable - less allowance for doubtful accounts of \$30,000	1,603,235	1,642,430
Inventories	3,801,955	2,252,297
Prepaid expenses and other current assets	<u>649,118</u>	<u>472,591</u>
Total current assets	17,826,866	7,502,741
PROPERTY, PLANT AND EQUIPMENT, net	2,223,700	1,815,916
INTANGIBLES ASSETS, net	1,845,229	1,439,913
OTHER ASSETS	<u>375,926</u>	<u>422,433</u>
	<u>\$22,271,721</u>	<u>\$11,181,003</u>
<u>LIABILITIES AND STOCKHOLDERS'</u>		
<u>EQUITY</u>		
CURRENT LIABILITIES:		
Note payable - bank	\$ -	\$ 500,000
Accounts payable	607,356	710,625
Accrued expenses	472,418	34,724
Income taxes payable	58,883	301,450
Current portion of long-term debt	<u>283,564</u>	<u>307,916</u>
Total current liabilities	<u>1,422,221</u>	<u>1,854,715</u>
LONG-TERM DEBT	<u>1,669,792</u>	<u>797,623</u>
DEFERRED INCOME TAXES	<u>411,000</u>	<u>243,000</u>
COMMITMENTS AND CONTINGENCIES		
STOCKHOLDERS' EQUITY:		
Common stock, \$.01 par value; authorized 10,000,000 shares; 8,707,059 and 7,157,059, respectively, issued and outstanding	87,071	71,571
Preferred stock, \$.01 par value; authorized 5,000,000 shares; 1,600,000 and zero, respectively, issued and outstanding	16,000	-
Additional paid-in capital	18,311,312	6,823,865
Unearned compensation	(2,055,753)	(951,330)
Retained earnings	<u>2,410,078</u>	<u>2,341,559</u>
	<u>\$22,271,721</u>	<u>\$11,181,003</u>

See notes to financial statements

PDK LABS INC.

STATEMENTS OF OPERATIONS

	Six Months Ended <u>May 31, 1992</u> (unaudited)	Six Months Ended <u>May 31, 1991</u> (unaudited)	Three Months Ended <u>May 31, 1992</u> (unaudited)	Three Months Ended <u>May 31, 1991</u> (unaudited)
NET SALES	<u>\$4,917,377</u>	<u>\$3,773,785</u>	<u>\$2,613,519</u>	<u>\$1,996,147</u>
COSTS AND EXPENSES:				
Cost of sales	2,254,361	1,492,977	1,234,520	740,010
Catalog printing, postage and promotion	281,712	328,746	153,862	192,643
Selling, general and administrative	<u>1,694,302</u>	<u>1,414,865</u>	<u>868,881</u>	<u>781,571</u>
	<u>4,230,376</u>	<u>3,236,588</u>	<u>2,257,262</u>	<u>1,714,224</u>
OPERATING INCOME	<u>687,001</u>	<u>537,197</u>	<u>356,256</u>	<u>281,923</u>
OTHER EXPENSES (INCOME):				
Interest income	(72,926)	(77,155)	(58,047)	(50,211)
Interest expense	68,190	87,291	34,549	39,015
Non-recurring employee compensation	<u>441,300</u>	<u>-</u>	<u>441,300</u>	<u>-</u>
	<u>426,564</u>	<u>10,136</u>	<u>417,802</u>	<u>(11,196)</u>
EARNINGS (LOSS) BEFORE PROVISION (BENEFIT) FOR INCOME TAXES	250,437	527,061	(61,546)	293,119
PROVISION (BENEFIT) FOR INCOME TAXES	<u>96,000</u>	<u>220,000</u>	<u>(24,000)</u>	<u>143,000</u>
NET EARNINGS (LOSS)	<u>\$ 154,437</u>	<u>\$ 307,061</u>	<u>\$ (37,546)</u>	<u>\$ 150,119</u>
EARNINGS (LOSS) PER SHARE	<u>\$.01</u>	<u>\$.05</u>	<u>\$ (.01)</u>	<u>\$.02</u>
WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING	<u>7,840,529</u>	<u>5,938,000</u>	<u>8,253,526</u>	<u>6,617,444</u>

See notes to financial statements

FDK LABS INC.

STATEMENTS OF CASH FLOWS

	<u>Six Months Ended</u>	
	<u>May 31,</u> <u>1992</u> <u>(unaudited)</u>	<u>May 31,</u> <u>1991</u> <u>(unaudited)</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net earnings	\$ 154,437	\$ 307,061
Adjustments to reconcile net earnings to net cash (used in) provided by operating activities:		
Depreciation and amortization	719,398	510,058
Non-cash compensation	441,300	-
Deferred income taxes	211,000	170,000
Changes in operating assets and liabilities:		
(Increase) decrease in assets:		
Accounts receivable	39,195	11,959
Inventories	(1,549,658)	(58,650)
Prepaid expenses and other current assets	(200,053)	(25,056)
Other assets	46,507	69,367
Increase (decrease) in liabilities:		
Accounts payable	(103,269)	272,697
Accrued expenses	(34,724)	(79,261)
Income taxes payable	(285,567)	(160,598)
Total adjustments	(715,871)	403,455
Net cash (used in) provided by operating activities	(561,434)	710,516
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of plant, property and equipment	(633,834)	(91,801)
Acquisition of intangible assets	(70,387)	(233,985)
Net cash (used in) investing activities	(704,221)	(325,786)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Decrease in stockholder loan	23,526	32,190
Repayment of debt	(152,182)	(554,378)
Proceeds of debt	500,000	-
Proceeds of stock offering	9,468,946	-
Proceeds of warrant exercise	62,500	1,972,764
Net cash (used in) provided by financing activities	9,802,790	1,450,576
Net increase (decrease) in cash and cash equivalents	8,637,135	1,835,306
Cash and cash equivalents at beginning of period	3,135,423	1,382,373
Cash and cash equivalents at end of period	\$11,772,558	\$3,217,679

See notes to financial statements

PDK LABS INC.

NOTES TO FINANCIAL STATEMENTS

SIX MONTHS ENDED MAY 31, 1992

1. Basis of Presentation:

The interim financial statements furnished reflect all adjustments which are, in the opinion of management, necessary to present a fair statement of the financial position and results of operations for the six and three month periods ended May 31, 1992 and 1991. The financial statements should be read in conjunction with the summary of significant accounting policies and notes to financial statements included in the Company's Form 10-k for the fiscal year ended November 30, 1991. The results of operations for the six and three month periods ended May 31, 1992 and 1991 are not necessarily indicative of the results to be expected for the full year.

2. Inventories:

Inventories at May 31, 1992 have been estimated using the gross profit method.

Inventories at November 30, 1991 consisted of the following:

Raw materials	\$ 787,449
Work-in-process	531,009
Finished goods	<u>933,839</u>
	<u>\$2,252,297</u>

3. Stockholders' Equity:

a. Secondary public offering

In April 1992, the Company successfully completed a secondary public offering of 1,600,000 units at \$7.00 per unit for gross proceeds of \$11,200,000. Each unit consists of one share of preferred stock, one Class B warrant and one Class C warrant. Each share of preferred stock may be converted by its holder into three shares of common stock commencing October 14, 1993 and entitles the holder to annual cumulative dividends of 7% per share, payable in cash for one year after issuance and thereafter in cash or common stock at the sole discretion of the Company. Each Class B and C warrant entitles the holder to purchase one share of the Company's common stock at \$3.25 and \$4.25 per share, respectively, subject to adjustment upon the happening of certain events.

1. Basis of Presentation: (Cont'd)

b. Common stock

(i) The Company issued 500,000 shares of common stock in connection with a five-year employment agreement entered into on December 1, 1991 with the Company's president, chief executive and chief financial officer. The value of these shares has been included in unearned compensation at May 31, 1992.

As of January 1, 1992, the Company issued 100,000 shares of common stock to a law firm in consideration of services provided in connection with the second stock offering. The value of these shares has been charged against paid-in capital.

These shares have been valued at \$1.25 per share.

(ii) On March 6, 1992, the Company issued 200,000 shares of stock to an officer in connection with a two-year extension of his employment agreement. The value of these shares has been included in unearned compensation at May 31, 1992.

On March 11, 1992, the Company issued 125,000 shares of stock to a company in connection with a two-year consulting agreement. The value of these shares has been included in unearned compensation at May 31, 1992.

On March 12, 1992, the Company issued 375,000 shares of stock to a Company in connection with the acquisition of a customer list. The value of these shares has been included in intangible assets at May 31, 1992.

The shares issued during March 1992 have been valued at \$1.50 per share.

(iii) Under the terms of an employment agreement, the Company issued to an officer options to acquire 250,000 shares at \$.25 per share for services provided. The officer exercised the options in March 1992. The value of the options was computed at the difference between the market value of the stock and the option exercise price plus the Company's liability to reimburse the officer for the tax consequences of the issuance, and have been charged to operations.

c. Earnings per share

Earnings per common share were computed by dividing net earnings less dividends on preferred shares by the weighted average number of shares of common stock outstanding during the period. The effect of common stock equivalents on the computation of earnings per share is not material. Shares held in escrow have been excluded from the weighted average number of shares.

4. Note Payable - Bank:

On February 25, 1992, the Company entered into a secured \$1,500,000 Revolving Credit Agreement with a bank which bears interest at the rate $3/4\%$ above the prime rate. The Revolving Credit Agreement terminates on November 30, 1994. Upon the execution of the Revolving Credit Agreement, the Company transferred its \$500,000 demand note to the Revolving Credit Agreement.

PDK LABS INC.

**Management's Discussion and Analysis of
Financial Condition and Results of Operations**

RESULTS OF OPERATIONS

Six Months Ended May 31, 1992 Compared to May 31, 1991

Net sales for the six months ended May 31, 1992 were \$4,917,377, representing a 30% increase over net sales for the corresponding period in 1991. The increase is attributable to an increase in the Company's wholesale customer base caused by the purchase of customer lists during the year ended November 30, 1991.

Catalog printing, postage and promotion costs were \$281,712 and \$328,746 for the six months ended May 31, 1992 and 1991, respectively. The 14% decrease reflects a more efficient utilization of the Company's mailing lists.

Selling, general and administrative expenses were \$1,694,303 and \$1,414,865 for the six months ended May 31, 1992 and 1991, respectively. The 20% increase is attributable to the greater amortization of customer lists, unearned compensation, and other intangible costs and an overall increase in administrative costs related to the growth of the Company.

Interest income decreased from \$77,155 for the six months ended May 31, 1991 to \$72,926 for the six months ended May 31, 1992. The decrease is principally attributable to lower interest rates. Interest expense decreased over the same periods from \$87,291 to \$68,190. The 22% decrease reflects lower debt levels and lower interest rates.

The results of operations for the six months ended May 31, 1992 include a \$441,300 charge for non-recurring employee compensation, related to the issuance of stock options to an employee.

Three Months Ended May 31, 1992 Compared to May 31, 1991

Net sales for the three months ended May 31, 1992 were \$2,613,519, representing a 31% increase over net sales for the corresponding period in 1991. The increase is attributable to an increase in the Company's wholesale customer base caused by the purchase of customer lists during the year ended November 31, 1991.

Catalog printing, postage and promotion costs were \$153,862 and \$192,647 for the three months ended May 31, 1992 and 1991, respectively. The 20% decrease reflects a more efficient utilization of the Company's mailing lists.

RESULTS OF OPERATIONS (Cont'd)

Three Months Ended May 31, 1992 Compared to May 31, 1991 (Cont'd)

Selling, general and administrative expenses were \$868,881 and \$781,571 for the three months ended May 31, 1992 and 1991, respectively. The 11% increase is attributable to the greater amortization of customer lists, unearned compensation and other intangible costs and an overall increase in administrative costs related to the growth of the Company.

Interest income increased from \$50,211 for the six months ended May 31, 1991 to \$58,047 for the six months ended May 31, 1992. The increase is principally attributable to a higher level of invested funds resulting from the proceeds of the secondary public offering. Interest expense decreased over the same periods from \$39,015 to \$34,549. The 11% decrease reflects lower debt levels and lower interest rates.

The results of operations for the three months ended May 31, 1992 includes a \$441,300 charge for non-recurring employee compensation, related to the issuance of stock options to an employee.

LIQUIDITY AND CAPITAL RESOURCES

May 31, 1992 Compared to November 30, 1991

The Company's cash balance increased from \$3,135,423 at November 30, 1991 to \$11,772,558 at May 31, 1992. Working capital increased by \$10,756,619 during the same period. The increases are primarily a result to the Company's April 1992 completion of a secondary public offering of 1,600,000 units at \$7.00 per unit, for net proceeds of approximately \$9,500,000. Each unit consists of one share of preferred stock, one Class B warrant, and one Class C warrant. Each share of preferred stock may be converted by its holder into three shares of common stock commencing October 14, 1993 and entitles the holder to annual cumulative dividends of 7% per share, payable in cash for one year after issuance and thereafter, in cash or common stock at the sole discretion of the Company.

The Company expects to meet its cash requirements from operations, current cash reserves, and its existing financing arrangements. The Company intends to use the proceeds of the offering for acquisitional, marketing and working capital purposes.

PART II - OTHER INFORMATION

Item 1. - Legal Proceedings

Reference is made to Item 3 in the Company's Form 10-K for the year ended November 30, 1991. There has been no significant change in the legal proceedings discussed.

Item 2. - Change in Securities

Not applicable; but see Item 5 below.

Item 3. - Defaults Upon Senior Securities

Not applicable.

Item 4. - Submission of Matter to a Vote of Security Holders

At a meeting of shareholders held on April 13, 1991, the majority of the shareholders voted to amend the Company's certificate of incorporation to (i) increase the number of authorized shares of common stock from 10,000,000 to 30,000,000 and (ii) to authorize 5,000,000 shares of preferred stock, the right and preferences of which can be established by the Board of Directors of the Company in one or more series from time to time without any further action or vote on the part of the shareholders of the Company.

Item 5 - Other Information

On April 22, 1992, the Company successfully completed a Secondary Offering of its securities, under which the Company sold 1,600,000 units at \$7.00 per unit. Each unit consists of one share of Series A Convertible Preferred Stock, one Class B Warrant and one Class C Warrant. Each share of Preferred Stock may be converted by its holder into three shares of common stock commencing October 14, 1993 and entitled the holder to annual cumulative dividends of 7% per share, payable in cash or common stock at the sole discretion of the Company. Each Class B and Class C warrant entitles its holder to purchase one share of common stock at \$3.25 and \$4.25 per share, respectively, subject to adjustment upon the happening of certain events.

The Company intends to use the proceeds of the Secondary Offering for acquisitional, marketing and working capital purposes.

Item 6. - Exhibits and Reports on Form 8-K

(a) Exhibits

(b) Reports on Form 8-K.

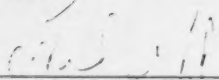
No report on Form 8-K has been filed during the quarter for which this report is filed.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

PDK LABS INC.

Dated: July 6, 1992

By: 

Michael B. Krasnoff
President and Chief
Executive Officer
Chief Financial Officer